

## MEMORANDUM



TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

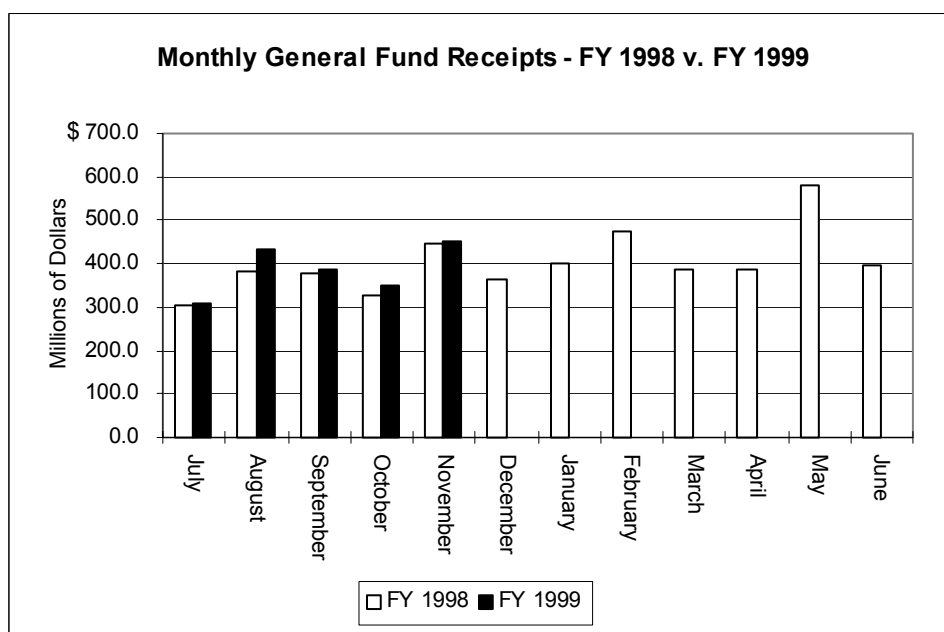
FROM: Dennis C. Prouty

DATE: December 1, 1998

### General Fund Receipts Through November 30, 1998

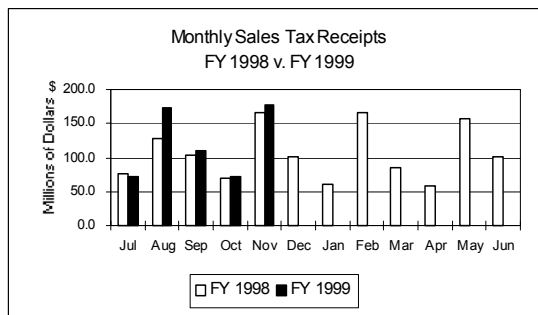
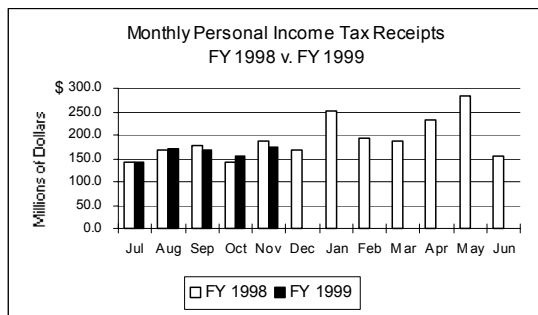
The attached spreadsheet represents total FY 1999 General Fund receipts, with comparable figures for FY 1998. These can be compared to the latest FY 1999 estimate (\$4.865 billion) set by the Revenue Estimating Conference (REC) on September 18, 1998. The estimate represents an increase of \$34.3 million (0.7%) compared to FY 1998. The REC will meet on December 4, 1998, to update the FY 1999 and FY 2000 revenue estimates.

The FY 1999 REC estimate now includes all adjustments for the bills passing the 1998 General Assembly. The net effect of these bills was a reduction in FY 1999 General Fund revenues of approximately \$139.2 million. The largest of these is the Omnibus Tax Bill (\$85.6 million) which increased the income tax personal exemption, expanded the State capital gains exclusion, raised the pension income exclusion, expanded the tuition tax credit, provided a sales tax exemption for hospitals, and increased the Elderly and Disabled Tax Credit.



## FY 1999 Compared to FY 1998

Fiscal Year 1999 revenue growth increased by \$80.9 million (4.4%) compared to FY 1998. This is above the current REC estimate of 0.7% for FY 1999 primarily due to a timing effect from sales tax receipts. Total November 1998 revenues increased \$5.4 million (1.2%) compared to November 1997.



**Gross personal income tax** revenues received in November were \$11.2 million (6.0%) less than November 1997. Although FY 1998 withholding payments exhibited strong growth, the effect of the 10.0% income tax cut can clearly be seen in FY 1999 withholding tax receipts. The November growth rate was negative, with withholding payments decreasing by 6.4% compared to November 1997. Year-to-date withholding receipts are \$25.6 million (3.6%) below the FY 1998 level. This trend is expected to continue through the first seven months of FY 1999, until the full year's effect of the 10.0% income tax cut is experienced.

Estimate payments increased in November, posting a gain of \$171,000 (11.6%) compared to November 1997. Year-to-date growth in estimate payments stands at \$23.8 million (25.1%) due to exceptionally strong July and October growth. Estimate payments are expected to fall after the first of the year because of the recent volatility in the stock market and the strong growth experienced in January 1998. Year-to-date gains in estimate payments can be attributed to both the strong year in the stock market and the federal capital gains tax rate change, however this trend is expected to moderate through the remainder of FY 1999.

The REC FY 1999 income tax estimate of \$2.342 billion represents a projected increase of 2.4% compared to FY 1998.

**Sales tax** receipts in November were \$12.5 million (7.6%) greater than November 1997. Year-to-date growth in sales tax stands at \$64.2 million (11.9%) compared to FY 1998. Nearly half of the annual gain is due to the change in the method of local option tax payments. As directed by HF 729 (Local Option Taxes Administration Act), the Department of Revenue and Finance began making monthly rather than quarterly distributions. Because of passing the old quarterly payment date in August 1997, August 1998 receipts were approximately \$31.7 million greater than otherwise would be the case. This timing factor explains a significant portion of the year-to-date growth in sales tax and overall revenues. The REC estimate for FY 1999 sales tax receipts is \$1.321 billion, which represents an increase of 3.9% compared to FY 1998.

**Corporate income tax** receipts in November were \$1.9 million (15.9%) greater than November 1997. On a dollar basis, estimate payments were the primary cause of growth for the month. Estimate payments received in November were \$2.7 million (34.3%) greater than November 1997. Year-to-date corporate income tax payments are \$4.6 million (4.7%) above the FY 1998 level.

The REC projected FY 1999 corporate income tax receipts would total \$285.1 million, a decrease of \$5.6 million (1.9%) compared to FY 1998.

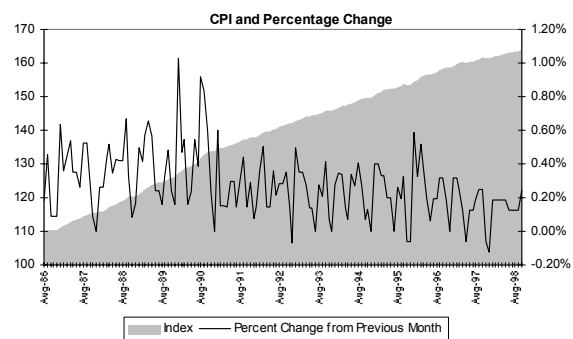
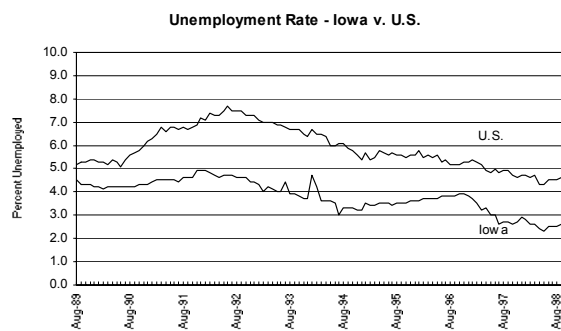
**Racing and gaming** receipts in November were \$1.3 million (10.5%) greater than November 1997. All racing and gaming receipts in excess of \$60.0 million are deposited in the Rebuild Iowa Infrastructure Fund. As a result, activity in these accounts has little direct impact on the General Fund because there is

little doubt that receipts will exceed the \$60.0 million threshold. The REC estimated that \$85.4 million from this source would be deposited to the Infrastructure Account in FY 1999.

### Status of the Economy

The seasonally adjusted percent unemployed for the State in October remained unchanged from the 2.6% rate in September. The unemployment rate a year ago was 2.9%. Iowa's total October employment registered 1,525,900, down from September's level of 1,539,300. The number of unemployed persons in Iowa stood at 41,300 in October, which is down from September's level of 41,800. The U.S. unemployment rate also remained unchanged in October from September's 4.6% rate.

Consumer prices in October increased 0.2%. The Consumer Price Index (CPI-U) through October 1998 was 164.0 (1983=100), which is 1.5% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through October 1998.



Information related to State General Fund receipts is available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Larry Sigel (515-281-4611).

GENERAL FUND RECEIPTS - FY 1999 vs. FY 1998					ESTIMATED GENERAL FUND RECEIPTS in millions of dollars			
July 1, 1998, through November 30, 1998, in millions of dollars					FY 98 Actual Compared to FY 99 REC Estimate			
	FY 1998	FY 1999	Year to Date		Actual	Estimate	% CHANGE	
			FY 1999	% CHANGE	FY 1998	FY 1999		
Personal Income Tax	\$ 813.1	\$ 813.9		0.1%	\$ 2,288.4	\$ 2,342.2		2.4%
Sales Tax	541.5	605.7		11.9%	1,271.8	1,321.4		3.9%
Use Tax	109.1	115.4		5.8%	243.0	262.0		7.8%
Corporate Income Tax	96.9	101.5		4.7%	290.7	285.0		-2.0%
Inheritance Tax	47.7	41.7		-12.6%	109.8	66.6		-39.3%
Insurance Premium Tax	0.6	0.4		-33.3%	108.9	108.9		0.0%
Cigarette Tax	39.7	40.0		0.8%	94.6	97.0		2.5%
Tobacco Tax	2.6	2.9		11.5%	6.1	6.6		8.2%
Beer Tax	5.7	5.9		3.5%	12.7	12.9		1.6%
Franchise Tax	11.7	11.3		-3.4%	36.4	38.5		5.9%
Miscellaneous Tax	1.4	1.6		14.3%	1.3	1.3		3.1%
Total Special Taxes	\$ 1,670.0	\$ 1,740.3		4.2%	\$ 4,463.7	\$ 4,542.5		1.8%
Institutional Payments								
Liquor Transfers:	30.1	24.3		-19.3%	70.2	41.8		-40.5%
Profits	11.0	11.0		0.0%	31.0	31.0		0.0%
7% Gross Revenue	3.8	3.8		0.0%	9.0	9.0		0.0%
Interest	8.5	10.1		18.8%	30.6	24.0		-21.6%
Fees	22.2	22.1		-0.5%	65.4	63.2		-3.4%
Judicial Revenue	15.4	16.2		5.2%	42.9	43.9		2.2%
Miscellaneous Receipts	23.8	33.3		39.9%	58.1	49.8		-14.3%
Racing and Gaming Receipts	54.5	59.1		8.4%	60.0	60.0		0.0%
TOTAL RECEIPTS	\$ 1,839.3	\$ 1,920.2		4.4%	\$ 4,830.9	\$ 4,865.2		0.7%